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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## **Public Disclosure**

October 27, 2003

# **Community Reinvestment Act Performance Evaluation**

**The Farmers and Merchants National Bank of Hatton  
Charter Number: 7905**

**415 Seventh Street  
Hatton, ND 58240**

**Office of the Comptroller of the Currency  
Fargo Field Office  
3211 Fiechtner Drive SW  
Fargo, ND 58103**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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## Institution's CRA Rating

The Farmers and Merchants National Bank of Hatton is rated **Satisfactory**.

- ◇ The bank's lending within their assessment area exceeds the standards for satisfactory performance. A substantial majority of its loans are made within the assessment area.
- ◇ The bank's loan-to-deposit ratio meets the standards for satisfactory performance. The LTD is reasonable given the bank's size, financial condition, and lending opportunities.
- ◇ The bank's lending to borrowers with different income levels and to farms of different sizes meets the standards for satisfactory performance.

## Description of Institution

The Farmers and Merchants National Bank of Hatton (FMNB) is a \$15 million financial institution located in Hatton, North Dakota. FMNB is a stand-alone bank owned by numerous individuals. The bank does not have any branches or automatic teller machines (ATMs).

FMNB offers a variety of loan products including farm, consumer, small business and residential real estate loans. Using December 31, 2002 financial information, gross loans represent approximately 61% of total assets. Refer to the table below for the bank's loan portfolio composition as of 12/31/02.

<b>Loan Portfolio Composition 12/02</b>	<b>\$ (000)</b>	<b>%</b>
Farm Loans	5,285	57.41
Consumer Loans	1,641	17.82
Business Loans	1,174	12.75
Residential Real Estate Loans	1,107	12.02
<b>Total</b>	<b>\$9,207</b>	<b>100.00%</b>

The last CRA examination was April 15, 1998 and the bank was rated "Satisfactory". The bank has neither opened nor closed any branches since the last CRA examination. There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

## Description of FMNB's Assessment Area

The bank's assessment area (AA) includes parts of Steele, Grand Forks and Traill counties in northeastern North Dakota. The AA is not located within a metropolitan statistical area (MSA). According to the 1990 census, the population of the AA is approximately 9,778. The AA includes three block-numbering areas (BNAs) and one census tract (CT). All three BNAs and the CT are designated as middle-income. The bank's AA contains no low- or moderate-income BNAs or CTs.

The AA includes only whole BNAs and CTs that are contiguous. The AA meets the requirements of the regulation. Low- or moderate-income geographies are not arbitrarily excluded from the AA. Other cities included in the AA are Buxton and Northwood.

The bank's AA is dependent on farm operations. Other employment opportunities include local and area nursing homes, school districts, American Crystal Sugar Company, and Mayville State University. The number of households living below the poverty level is moderate at 12% of total households. The statewide median income for 2002 is \$43,475.

The bank's competition includes neighboring community banks. In addition, branches of larger banks, such as Alerus Financial and American Federal Bank are located within, or bordering the AA.

During our evaluation, we contacted a county housing authority to better understand the AA demographics and to determine the primary credit needs of the AA. We also relied on the previous community contact made by this agency and other governmental agencies. The top credit needs of the AA include farm and consumer lending.

The demographics of the AA are illustrated in the table on the following page. The information is based on 1990 census data unless otherwise noted.

<b>Demographic and Economic Characteristics of AA</b>	
<i>Population</i>	
Number of Families	2,620
Number of Households	3,763
Number of Low-Income Families	381
% of Low-Income Families	14.54%
Number of Moderate-Income Families	526
% of Moderate-Income Families	20.08%
Number of Middle-Income Families	633
% of Middle-Income Families	24.16%
Number of Upper-Income Families	1,080
% of Upper-Income Families	41.22%
<i>Geographies</i>	
Number of Census Tracts/BNA	4
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,284
2002 HUD-Adjusted MFI	\$43,475
<i>Economic Indicators</i>	
Unemployment Rate	5.1%
2002 Median Housing Value	\$37,664
% of Households Below Poverty Level	12%

### **Loan Sampling**

We determined the bank's primary loan types through analysis of all loans originated in 2001 and 2002 with outstanding balances as December 31, 2002. For the purpose of this evaluation, the primary loan types of the bank are farm and consumer loans. The following table depicts the number and dollar volume of the bank's primary loan products.

<b>Loan Products</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Farm Loans	58	19.80	5,285	57.41
Consumer Loans	156	53.24	1,641	17.82
Business Loans	39	13.31	1,174	12.75
Residential Real Estate Loans	40	13.65	1,107	12.02
<b>Total</b>	<b>293</b>	<b>100%</b>	<b>\$9,207</b>	<b>100%</b>

To complete our analysis, we selected a sample of 20 farm and 20 consumer loans to determine the bank's lending within the AA. Statistically valid sampling techniques were used to select the sample. The original balances of the 20 farm loans and 20 consumer loans totaled \$2,661,421 and \$154,492, respectively. After initial sampling, we reviewed additional files to ensure that 40 loans in the sample were made within FMNB's AA.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Lending in Assessment Area

Lending in the assessment area exceeds the standards for satisfactory performance. A substantial majority of the bank's loans are originated within its AA. The table below demonstrates the bank's commitment to lending within their AA.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Farm Loan Sample	15	75%	2,179	82%	5	25%	483	18%
Consumer Loan Sample	20	100%	155	100%	0	0%	0	0%
Total Reviewed	35	88%	2,333	83%	5	17%	483	46%

Dollar volume in 000s.

### Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance given its resources, capacity to lend, demographic and economic factors, and lending opportunities available in the AA. The quarterly LTD ratio averaged 61.56% since March 1998. With the exception of seasonal variations, the bank's lending has been relatively stable over the last five years.

FMNB ranks six out of seven banks in the area. Although the bank is low compared to other banks in the area, its LTD is reasonable. According to management, the bank would like to increase their loan portfolio size. However, limited loan demand places restriction on loan growth. The following table depicts the bank's LTD compared to other banks in the area.

Institution	Assets as of 12/31/02 (\$)	Average LTD Ratio (%)
The Goose River Bank	63,288	82.82
First State Bank	53,677	81.61
The Citizens State Bank of Finley	34,247	74.14
The First and Farmers Bank	38,391	70.31
First State Bank of Hope	15,371	67.45
<b><i>The Farmers &amp; Merchants National Bank of Hatton</i></b>	<b><i>15,082</i></b>	<b><i>61.57</i></b>
First State Bank of Sharon	47,728	59.97

## Lending to Borrowers of Different Incomes and to Farms of Different Sizes

Lending to borrowers of different incomes and to farms of different sizes meets the standards for satisfactory performance.

### Farm Loans

FMNB's lending to farms of different sizes is more than reasonable. Lending to farms with revenues under \$1 million exceeds the demographics of the AA. The following table illustrates FMNB's lending to farms of different sizes.

<b>Borrower Distribution of Loans to Farms in FMNB's AA</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96.21	3.79
% of Bank Loans in AA #	100	0
% of Bank Loans in AA \$	100	0

### Consumer Loans

Consumer lending to low- and moderate-income borrowers meets the standards for satisfactory performance. The percentage of number of loans to moderate-income borrowers exceeds the demographics of the AA, while a sufficient percentage of number of loans to low-income borrowers reasonably meets the demographic needs. The following table portrays FMNB's consumer lending compared to the demographics within the AA.

<b>Borrower Distribution of Consumer Loans in FMNB's AA</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21.0	*15	16.9	*35	19.9	*25	42.2	*10

15% of total loans sampled did not include income data

## Geographic Distribution of Loans

Analysis of the geographic distribution of loans is not meaningful due to the AA containing only middle-income designations.

## Responses to Complaints

FMNB has not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

## Fair Lending

The analysis of Year 2001 and Year 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need

to be conducted in connection with the CRA evaluation this year.